China News in Brief
April, 2011

Compiled by Yimin Zhang, University of Shanghai for Science and Technology and distributed free of charge.
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China's New Growth Strategy

After years of nonstop economic growth, China may be rethinking some of its growth priorities. Its latest Five-Year Economic Plan specifically addresses rising social inequality and the need for more "human centered" growth. According to this new plan, China's economy will shift from export centered growth to growth based on domestic consumption, while pursuing balanced regional development and paying more attention to quality of life.

But China's per capita GDPs only $4,000 or 10 percent of Japan. Effective demand will become much more important in the post crisis world. With its new strategies to expand domestic demand, China will be one of the fastest growing markets in the world, helped by consumption tax cuts and market consolidation.

The yuan will also experience regionalization. At present, the yuan is used in border transactions and currency swaps but in the future the yuan will be more widely used for large-scale international transactions, global investments, trade financing and related financial services. For this reason, a cautious approach needs to be taken in opening the capital accounts and initiating market reforms for the yuan’s exchange rate.

While implementing strategies to grow its domestic market, China needs to globalize its economy. Globalization will need to take place in talent, capital, industry, and trade, and all these need to be developed in sync with one another.


Ahead of the Tape

There is no bigger question hanging over global markets than the resilience of China's economic growth. Yet the tea leaves are especially difficult to read now. On Friday, China's National Bureau of Statistics will release gross-domestic-product growth figures for the first quarter of 2011. Data on the Chinese economy is hard to read at the best of times, but now it is particularly challenging. The timing of China's New Year, which often messes with first-quarter figures, combined with new approaches to measuring some of the key indicators, cloud the picture on the direction of growth.

Economists expect the figures to show GDP expanding 9.5% from a year earlier, in line with the prior two quarters though down from the nearly 12% growth rate of early 2010. Still, that relatively strong pace should arrest some fears of a "hard landing" as China ratchets up its inflation-fighting efforts. The central bank just raised interest rates for the fourth time in as many months. The data won't extinguish slowdown worries entirely. Indeed, separate reports show consumer confidence is at its weakest in a decade. The nation just recorded its first quarterly trade deficit in seven years, but that has as much to do with the higher cost of...
commodity prices as with stronger demand. Meanwhile, other economic reports have been mixed. Industrial-production growth has accelerated, but the government changed those figures this year to exclude smaller firms. Concrete production and freight transported by rail have separately edged down. HSBC's manufacturing index dropped in February and stayed low in March.

For that reason, the highlight of Friday's release may be the appearance for the first time of an official number for the quarter-on-quarter growth rate. Presenting the quarterly change in GDP at a seasonally adjusted annual rate is already the basis for official figures in most other countries, including the U.S. It also better captures changes in the economy's momentum.


World News: China's Inflation Accelerates, Adding Pressure

The country's gross domestic product rose 9.7% from a year earlier in the first quarter, down marginally from 9.8% growth in the fourth quarter of 2010. The consumer-price index, meanwhile, rose by 5.4% from a year earlier in March, up from 4.9% in February and the fastest pace since July 2008. Economists had expected a 5.3% rise.

China's leaders have said repeatedly that taming consumer prices is their top economic priority this year. They have taken a long series of measures in that fight, including four interest-rate increases since October and government orders to companies like Anglo-Dutch consumer-goods giant Unilever PLC to delay planned price increases. But prices have continued rising rapidly.

"The GDP figure is better than expected, showing domestic demand remains solid, which provides the People's Bank of China some leeway to keep tightening monetary policy," said HSBC economist Ma Xiaoping.

China's producer-price index, a measure of wholesale factory prices that can be a leading indicator of inflation pressures, rose 7.3% from a year earlier in March, the data showed, higher than February's 7.2% rise but below economists' median forecast of a 7.4% increase. The Chinese economy expanded at a seasonally adjusted rate of 2.1% from the previous quarter, the statistics bureau said. This is the first time that China has released an official estimate of its quarter-on-quarter growth, which is the preferred measure of growth in most major economies.

The big question for China and the rest of the world is whether Beijing can pull back prices without throttling back so hard that growth stalls in the main driver of the global economy. Many economists expect at least one more interest-rate increase this year, and further efforts to cool bank lending.


China economy: Policy tightens; more tightening on the way

In response to strong economic growth and an acceleration in inflation that have added to fears of overheating, China's central bank on April 17th raised banks' reserve requirement ratios (RRRs). The People's Bank of China (PBoC) raised the RRR for large banks by 50 basis points to a record 20.5% and that for smaller banks by the same increment to 18.5%. Although this was the tenth RRR
hike in the current policy cycle, the PBoC has not finished tightening. The Economist Intelligence Unit expects the central bank to raise the RRR further in the months ahead, and also to raise interest rates again.

The PBoC's move follows the release on April 15th of official data that suggest that policy measures aimed at cooling the economy and taming inflation have not yet had much of an impact. China's real GDP expanded by 9.7% year on year in the first quarter of 2011, compared with 9.8% in the fourth quarter of last year. Inflation data published on the same day showed that consumer prices rose by 5.4% year on year in March, up from 4.9% in February and the highest rate of inflation since July 2008.

The EIU forecast: China's latest economic data are basically in line with our forecasts. First-quarter GDP growth was slightly higher than we expected, but we do not expect to make a notable revision to our full-year forecast. We expect real GDP growth to come in at 9% in 2011, and inflation to average 5% over the year as whole.
Source: EIU ViewsWire: China economy: Policy tightens; more tightening on the way, Apr 18, 2011

**Data Leaks in China Give Some Investors an Edge**

Leaks of Chinese economic data have frequently circulated in recent months. Chinese authorities suspect that the leaks come from officials at various ministries and agencies that enjoy early access to the data. Now the National Bureau of Statistics of China is calling for a crackdown. To help plug leaks, the agency recently limited the number of people with access to data. The bureau says it has shortened the time lag between finalization and release of the consumer price index to 48 hours from 72 hours, and bureau spokesman Sheng Laiyun says the bureau may further reduce the lag on publication of that and other statistical data. Those with early access can make money, says Lu Ting, a Hong Kong-based economist at Bank of America Merrill Lynch.

**China economy: Demographic profile**

Demographic profile

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<th>2005</th>
<th>2010</th>
<th>2015</th>
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<tr>
<td>Population (m)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Total</td>
<td>1,276</td>
<td>1,312</td>
<td>1,349</td>
</tr>
<tr>
<td>Male</td>
<td>657.6</td>
<td>675.2</td>
<td>692.2</td>
</tr>
<tr>
<td>Female</td>
<td>618.8</td>
<td>637.3</td>
<td>656.6</td>
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<tr>
<td>Age profile (% of total population)</td>
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<td>0-14</td>
<td>23.1</td>
<td>20.1</td>
<td>19.1</td>
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<tr>
<td>15-64</td>
<td>69.6</td>
<td>71.9</td>
<td>72.0</td>
</tr>
<tr>
<td>65+</td>
<td>7.4</td>
<td>8.0</td>
<td>8.9</td>
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Young-age dependency ratio  0.33  0.28  0.27
Old-age dependency ratio  0.11  0.11  0.12
Working-age population (m)  887.8  943.9  971.4
Urbanisation (% of total)  38.6  43.1  47.8
Labour force (m)  790.1  815.3  809.0

Period averages  
Population growth (%)  0.6  0.5
Working-age population growth (%)  1.2  0.6
Labour force growth (%)  0.6  -0.2
Crude birth rate (per 1,000)  13.3  14.3
Crude death rate (per 1,000)  7.0  7.1
Infant mortality rate (per 1,000 live births)  17.5  15.2
Life expectancy at birth (years)
Male  72.2  73.0
Female  75.2  76.9
Average  73.5  75.0

Sources: International Labour Organisation, labour force projections; Economist Intelligence Unit estimates and forecasts; national statistics.

Improved healthcare provision, nutrition and hygiene will gradually lead to an increase in life expectancy in the forecast period. By 2015 average life expectancy is forecast at 73 years for males and 76.9 years for females. However, China will continue to face serious health challenges, most notably from HIV/AIDS and smoking. The World Health Organisation (WHO) and the Joint UN Programme on HIV/AIDS (UNAIDS) estimate that there are around 650,000 people with AIDS in China, but the WHO believes that the number could rise rapidly in future, and there is growing evidence that HIV/AIDS is spreading from high-risk groups to the general public. There is growing awareness of the health risks associated with smoking, in a country where 60% of adult males are regular smokers. The WHO has estimated that smoking kills 1.2m Chinese a year, and there is now a growing resolve on the part of the government to act more forcefully against smoking.

The ageing of the population is bringing into sharp relief the need to improve pensions and healthcare provision. The movement of mainly younger individuals and families to urban areas will leave a growing proportion of elderly people in rural areas, where social security provision and healthcare insurance are particularly poor and unevenly spread. The government has put in place a co-operative (insurance-based) healthcare system that is being extended throughout rural China. But such insurance provides only partial coverage of healthcare costs.

China's huge population will present the country with enormous challenges in terms of employment. The challenge is most acute in the area of graduate employment.
China economy: Inflation threat

A truckers’ strike in Shanghai on April 20th-22nd has helped to underline why rising inflation has become the Chinese government's main policy challenge. Businesses in China are facing rising input, wage and commodity costs, but policymakers fear that allowing these costs to drive consumer prices higher would lead to social unrest. Given that key prices will continue to trend upwards, the policy challenge is set to persist.

Inflation has topped the government's agenda after consumer prices rose by 5.4% year on year in March, up from 4.9% in the previous month. Although the upward drift continues to be led by food costs, which rose by 11.7% compared with the same month in 2010, the strength of non-food inflation may be even more worrying. At 2.7% in March, non-food inflation stands at the highest level since measurements began in 2002. Rising rental costs seem likely to be the main cause. Meanwhile, producer prices were up by 7.3% year on year in March--the fastest rate since mid-2008--reflecting global increases in commodity prices. Growing labour unrest has been one sign of the strains caused when firms and individuals cannot pass on prices. Truckers in Shanghai blockaded ports in the city in April as part of a three-day strike prompted by rising fuel and operating costs, while taxi driver stoppages are becoming a regular feature in many Chinese cities. In many cases, such action is designed to force the government to intervene to reduce the costs of those involved in the strike, or at least allow them to raise their prices.

New hike in reserves for banks

The central bank raised the amount of money that banks must hold in reserve by 50 basis points on Sunday - the fourth hike this year - to mop up excessive liquidity and control inflation in the world's second-largest economy. The People’s Bank of China, the central bank, announced on Sunday that the measure will be effective from April 21. This is the tenth increase since the beginning of 2010. The new reserve requirements for large commercial banks will be 20.5 percent. It's estimated that the move will soak up about 376.4 billion yuan ($57.66 billion) from the market, and affect lending of about 1.71 trillion yuan, Dong Xian'an, chief economist with Peking First Advisory, said. Abundant liquidity this month makes the decision necessary, with 900 billion yuan of central bank bills due to return, analysts said. The government has made reining in prices a key task for this year.

"We will remove the monetary factors that are related to inflation ... Our monetary policy will continue to move from moderately loose to prudent. This means properly tightening. The trend will continue for some time." He said there isn't an absolute reserve ceiling for banks. "It depends on many conditions. When those conditions change the force and room for reserve requirement ratio adjustments will also change."

Source: EIU ViewsWire: China economy: Demographic profile Apr 26, 2011

Source: EIU ViewsWire: China economy: Inflation threat, Apr 27, 2011

CHINA: Tower of strength

Bad loans in China are falling sharply - or so the authorities say. By the end of 2010 non-performing loans (NPLs) stood at Rmb364.4 billion (pound 34.3 billion) or 1.15% of total loans, according to Liu Mingkang, the head of the China Banking Regulatory Commission (CBRC) - well down from the 2002 level of Rmb2.28 trillion and 23.61%. Moreover, China's big four state banks have reported healthy earnings for 2010. The banks also announced encouraging news on NPLs. ICBC expects its bad loans to remain below 1.1% of total lending throughout 2011. BoC forecasts a similar figure, while Agricultural Bank of China expects just over 2%.

Yet Chinese banks continue to attract hostile headlines. Fund Strategy say investors across Asia are concerned about the health of Chinese banks and, more specifically, are worried that NPLs could rise sharply in the coming years, with damaging consequences for the economy. So why are investors troubled, given the apparent strength of China's banks? The answer lies in the hike in lending that took place in 2009 in the wake of the global financial crisis. Indeed, bank lending jumped by a third during 2009, having already risen by an average 20% in the previous two years. According to the International Monetary Fund (IMF) Staff Report on China published in June 2010, the rise in lending in 2009 was equivalent to 31% of GDP. Add in the figures for 2010 and, according to some analysts, lending over those two years amounts to half of GDP. The IMF, referring solely to the 2009 lending growth, warned that "experience, in both China and abroad, would suggest that this could soon be accompanied by a worsening in average credit quality". Last month, Fitch said that China faced a 60% risk of a banking crisis by mid-2013 in the aftermath of record lending and surging property prices. In November 2010, Moody's Investors Service highlighted its "concerns over the intrinsic, stand-alone strength of China's banking system".


Stress tests toughened for Chinese banks

The China Banking Regulatory Commission (CBRC) has begun to stress-test lenders more strictly, the 21st Business Herald reported Wednesday. Commercial bank sources told the paper that the CBRC has requested each bank to present the changing scenarios of property loans under different levels of risks from the end of this month to the beginning of next month. For high-risk areas, banks will be tested to see whether they can withstand property prices slumping by 30 percent and at the same time interest rates being raised by 27 basis points. They will also be tested under a 40 percent fall in housing prices with a hike of 54 basis points in interest rates and under a 50 percent fall in housing prices with a hike of 108 basis points in interest rates. Beijing, Shanghai, Shenzhen, Guangzhou, Chongqing, Hangzhou and Nanjing are high-risk areas.

For other areas, lenders will be stress-tested under a 10 percent fall in housing prices with a hike of 27 basis points in interest rates, a 20 percent fall in housing prices with a hike of 54 basis points in interest rates and a 30 percent fall in housing prices with a hike of 108 basis points in interest rates.

Source: Song Jingli : Stress tests toughened for Chinese banks, China Daily, 2011-04-21

Government boosts the bond markets
China will encourage businesses to raise funds by issuing bonds, and will gradually open up the bond and other financial markets to overseas investors, the People's Bank of China (PBOC) said in an annual report on its website on Friday. "As China puts restructuring of the economic growth pattern at the top of its agenda during the next few years, we will encourage and support enterprises in some key industries, especially small- and medium-sized enterprises, to raise funds through all kinds of bonds," said the central bank.

In 2010, China's inter-bank spot bond trading reached 64 trillion yuan ($9.76 trillion), a rise of 35.5 percent over the previous year. That saw the country ranked in second place in Asia and sixth in the world by trading volume, according to the report. Bond issuance rose from 8.93 trillion yuan in 2009 to 9.83 trillion yuan in 2010 (including central bank bills), an increase of 10.19 percent year-on-year. Corporate bonds accounted for 33.66 percent of the total issuance. "In 2011, the opening-up of the bond market to overseas investors will be further accelerated, as cross-border trade settlements in yuan increase and the number of foreign holders of the yuan rises," The government's promotion of the bond market has been prompted by the increasing difficulties faced by companies in gaining funds through bank loans, but is also aimed at laying a path for yuan internationalization and a liberalization of interest rates.

Source: Wang Xiaotian: Overseas private equity companies warm up to QFLP, China Daily, 2011-04-9

**Overseas private equity companies warm up to QFLP**

The trial of China's new Qualified Foreign Limited Partnerships (QFLP) policy is proving to be a hit with overseas private equity (PE) companies, who are showing interest in the direct-investment channel. The policy allows a certain number of foreign PE funds to make equity investments in China after exchange settlement. Shanghai is now releasing QFLP guidelines for companies and Carlyle is one of just three to gain a license so far. Carlyle has invested more in China than any other PE company - to date, about $3.2 billion of equity in more than 50 transactions focusing on a number of areas of domestic demand.

The Economic Information Daily said earlier that the settlement amount for PE companies in Shanghai could be as much as $3 billion. However, the financial details have yet to be finalized. Recently, the southwestern municipality of Chongqing has been seeking to establish itself as a financial center by adopting policies that are attractive to investors, including QFLP. Infinity Group, a leading Israeli investment vehicle, announced last week that it had signed an agreement to set up a $2 billion fund in Chongqing.

China's limited partnerships are mainly government-guided funds, social security funds and private capital. Yuan-denominated PE funds are ineligible to raise capital from agencies such as commercial banks and insurance companies.

Source: Cai Xiao: Overseas private equity companies warm up to QFLP, China Daily, 2011-04-12

**World's top 500 firms eyed for int'l board**

China will likely allow some of the world's top 500 companies to float shares in its A-share
market as it prepares the launch of an international board in Shanghai, Chinese media reported on Tuesday. After considering the views of many parties, the regulator has come to the conclusion that the international board should first consider companies on the world's top 500 list, the China Securities Journal reported on Tuesday, citing a source it described as authoritative. But the report said that the authorities haven't decided whether red-chip companies - domestic companies that are registered overseas - will be allowed to list on the international board.

A press officer at the China Securities Regulatory Commission told China Daily on Tuesday that there is still no timetable for the launch of the long-awaited international board and the delay may be caused by the lack of agreement among higher-level officials and concerns of the Hong Kong Stock Exchange, a potential competitor of the Shanghai bourse in the market of new share sales. Local media reported earlier this month that China's securities regulator may allow about 10 foreign companies in the first batch of listings on the international board. The 10 companies will comprise multinational corporations such as HSBC Holdings PLC and Unilever PLC, as well as foreign-incorporated Chinese firms such as China Mobile Limited and China National Offshore Oil Corp, the 21st Century Business Herald reported, citing a government proposal. Foreign companies looking to list in Shanghai must have a market capitalization of at least 30 billion yuan ($4.6 billion) and a combined three-year net profits of at least 3 billion yuan, according to the proposal. The companies must have posted a net profit of at least 1 billion yuan in the most recent 12 months, the proposal said. China has long said it plans to open its stock market to foreign listings because it wants to raise the global profile of Shanghai, which aims to become an international financial center.

Source: Anonymous: World's top 500 firms eyed for int'l board, China Daily, 2011-04-27

**Impacts of Venture Capital on Development of Sichuan High-Tech Enterprises**

The international financial crisis is encouraging new science and technology revolution and industrial revolution. To accelerate the transformation of economic development mode is urgent. We must pursue for an innovative development. Venture capital will play a greater role in the process. In this paper, authors start from describing the current development of venture capital and high-tech enterprises in Sichuan province, and make a model analysis of them.

By introducing the development of venture capital industry and high-tech industry in Sichuan province, authors find that venture capital does not play its role in Sichuan high-tech industry. Sichuan local venture capital industry is still at the initial development stage. The connection between venture capital industry and high-tech industry is not close. By analyzing the theoretical mode of venture capital and high-tech enterprises and the case of Geya financing, authors conclude that venture capital plays a crucial role in the development of high-tech enterprises. Venture capitals offer a possibility for the fast development of high-tech enterprise. At the same time, venture capitalists obtain huge profits. Therefore, the development of high-tech enterprises should start from venture capital industry, ensuring the "catalyst" effect of venture capital in high-tech enterprises, and promoting the economic development in Sichuan province.

Source: Zhang, Zhen; Yang, Qizhi: Impacts of Venture Capital on Development of Sichuan High-Tech Enterprises, International Business Research 4. 2 (Apr 2011): 250-256
Central banker eyes growth in securitization

China needs to urgently securitize part of its huge stockpile of bank loans to help stimulate growth in the banking and financial sectors, a vice central bank governor said on Thursday. The size of China's asset-backed securities and mortgage-backed securities could explode to 3 trillion yuan ($460.7 billion) in the next five years, nearly 45 times of the 67 billion yuan now, Liu Shiyu, a vice governor at the People's Bank of China, told a forum in Beijing. "We have about 50 trillion yuan in outstanding bank loans. If we can securitize 5 percent of them in the coming five years, we can grow the market," Liu said.

The global financial crisis of 2007 and 2008 gave the securitization business a bad name because it had contributed to the meltdown in the US housing market. But Liu argued that banks and investors alike can benefit from more securitization: it will allow banks to set aside less capital for loan provisions, and individuals will have more investment choices. Right now, Chinese savers have few places to put their cash apart from bank deposits, the stock market and the property market. The concentration of money in real estate investments has driven up home prices to record levels. As part of a trial, China has created 17 asset securitization deals to date, issuing 67 billion yuan worth of securities based on mortgages and other loan assets, Liu said. Liu said it is time for China to roll out securitization in a big way.

Source: Xinhua: Central banker eyes growth in securitization, 2011-04-12

China nabs over 14,000 suspects in IPR campaign

Chinese police have seized 14,185 suspects in the past five months in an ongoing campaign to halt the production and sale of counterfeit goods, including pirated software, fake drugs and homemade suitcases bearing the names of global luxury brands. These suspects were allegedly involved in more than 8,000 cases of intellectual property rights (IPR) violations that wrapped up from the time the campaign started in November last year to the end of March, according to figures revealed Tuesday by the Ministry of Public Security (MPS) at a news conference.

During the period, more than 7,000 production and sales outlets were destroyed, said Gao Feng, deputy director of the ministry's Economic Crime Investigation Department, adding that the ministry will focus on the supervision of 340 major cases to ensure thorough investigation and punishment of violators.

Source: Xinhua: China nabs over 14,000 suspects in IPR campaign, 2011-04-12

More students choose to study abroad

The number of Chinese students studying abroad has rapidly increased in recent years. For the 2009 to 2010 academic year, a total of 229,300 Chinese students were being educated abroad, up 30 percent from the previous year, according to statistics released by the Ministry of Education. "Since 2000, the number of Chinese students abroad increased at an average annual rate of 20 percent. By 2014, the number is expected to hit 550,000 to 600,000," said Sang Peng, director of the Beijing Overseas-Study Service Association.
"Not long ago, the majority of Chinese students went abroad to pursue a master's degree or PhD. Undergraduates only accounted for 30 percent of the total," said Richard Yang, director of Aoji Enrolment Center of International Education Ltd, part of the Aoji Education Group. It is likely this will change over the next three years. Those in high school or undertaking undergraduate studies are expected to make up 70 percent of those being educated abroad. Of them, students in higher education will make up 30 percent, Yang said. This trend is also reflected in the fact that the number of Chinese students sitting the college entrance exam is in a downward trend. Some 9.57 million high school students across China registered to take the college entrance exam in 2010, approximately 650,000 fewer than the previous year, and 930,000 fewer than 2008, figures from the Ministry of Education showed.

So, what is behind the lowering age of overseas Chinese students? First, going abroad is an alternative to the national college entrance exam, which has long been described as a stampede of "thousands of soldiers and tens of thousands of horses across a single log bridge". "The enormous pressure will definitely harm a child's physical and mental health, and I don't think it's worthwhile that all the hard work goes into a one-time exam," he added. Lu Jun, a senior consultant at Chivast Education International Co, said most Chinese parents firmly believe that the younger their children go abroad, the sooner they get accustomed to the local cultural and social environment. Studying abroad can cultivate young students to be more independent and more adaptable to new environments. These abilities will help them in job-hunting in the future, said Lu. Last but not least, the demand of Chinese students to study abroad has also been driven by rising incomes of Chinese families. Chinese students' enthusiasm for studying abroad at a younger age has prompted not only more and more intermediary agencies to enter the market, but also many top high schools to change. However, some experts warned that studying abroad at younger ages could be a double-edged sword for Chinese students. Those who are too young to tell right from wrong may indulge in improper or even illegal activities without the guidance of their parents.

Source: Yang Ning: More students choose to study abroad, China Daily, 2011-04-25

**China: the next lap of luxury?**

European luxury goods companies may target China as they seek to minimize the impact of the Japanese earthquake on their businesses. In its latest report, the World Luxury Association (WLA), an international non-profit organization that specializes in the management of luxury brands and market research, said that the market in Japan contracted significantly in the weeks following March 11. Around 60 percent of shopping malls in Tokyo have reported a marked drop in sales of luxury items and around half of Tokyo's luxury stores are still closed. Ginza, the city's up-market shopping district where luxury brands such as Chanel SA, House of Gucci and LVMH Group (Louis Vuitton) are located, has seen a drop in sales of at least 50 percent in the past month, said Michael Ouyang, CEO of the WLA's China office.

"More than 70 percent of the brands will try to accelerate a shift in their development focus from Japan.
to China this year," Ouyang said. "China will take the place of Japan and become the world's largest consumer market for luxury goods," he predicted. As of December 2010, sales of luxury goods in the Chinese market rose to $10.7 billion, or 30 percent of total global sales, up from $9.4 billion in 2009. The earthquake has also had an impact on overseas markets, especially the cosmetics market. After the earthquake, stocks of Japanese cosmetics in many other countries sold out rapidly, especially better-known brands such as Shiseido and Kanebo. However, 95 percent of people surveyed by the WLA said that they will not buy Japanese-made cosmetics because of fears of possible nuclear contamination. "A great many people will not buy Japanese cosmetics for the next couple of years, which could severely damage the domestic industry," said Ouyang. Different companies are adopting different strategies in the aftermath of the earthquake.


**SMEs see higher industrial output growth**

Industrial value-added output of Chinese small and medium-sized enterprises (SMEs) grew 16.9 percent year-on-year in the first quarter of 2011, 2.5 percentage points higher than the overall industrial value-added output level, the Ministry of Industry and Information Technology (MIIT) said Wednesday. However, the number of SMEs reporting losses rose 0.3 percentage points year-on-year to reach 15.8 percent for the first two months of the year, with total losses up 22.3 percent year-on-year, MIIT chief engineer and spokesman Zhu Hongren said at a press conference concerning China's first-quarter industrial operations.

Zhu said global uncertainties, including the international financial crisis, unrest in the Middle East and Japan's nuclear crisis, have had more significant effects on SMEs, especially export-oriented SMEs, in comparison to large enterprises. In addition, rising production costs and financing difficulties are prominent among the country's SMEs, he said. "We have paid great attention to the current situation and problems encountered by SMEs. We are now working with other departments to study the issue and will come up with policies to give more support to SMEs," he said.

Source: Xinhua: SMEs see higher industrial output growth, 2011-04-20

**China to promote private businesses**

The State Council, or China's cabinet, released new regulations on Thursday that will benefit the country's privately-owned businesses in an effort to further promote their role in boosting economic growth and employment. The "Regulations on Individual Businesses," which will become effective on November 1, were approved by the State Council on March 30 and signed by Premier Wen Jiabao on April 16.

The new regulations will expand the scope of individual businesses to all industries except those prohibited by the country's laws and regulations. Limitations on the number of employees will be scrapped. The current interim regulations require individual businesses to have no more than two assistants. "Individual businesses can recruit employees according to their needs," the new regulations said. Administrative fees will also be scrapped after the new regulations take effects.

Source: Xinhua: China to promote private businesses, 2011-04-29
Many top bosses mull job move

With growing confidence about career opportunities and expectations of more pay, as many as 87 percent of senior managers in China have said they may change jobs this year, according to a recent survey. The study also found that the balance between work and free time is, for the first time, on the list of the top three incentives among people considering a new job. The survey, which was released by MRI China Group, an executive search firm, also shows that 64 percent of the 2,265 respondents on the mainland and 58 percent of the 348 respondents in Hong Kong had received at least one job offer during the past 18 months. The survey that was conducted during the fourth quarter of 2010 was based on questionnaires handed out to senior managers on the mainland and in Hong Kong. Money, as ever, was a major incentive for people considering job offers.

Chris Watkins, country manager with the MRI China Group, said: "Employers need to take proactive approaches to hang onto them". For employers looking for new talent, especially those seeking bilingual employees with commercial expertise, the challenge is more difficult now than it was a few years ago because of the boom in businesses demanding such skills, Watkins said. The survey also showed that most employees prefer to work in first-tier or coastal cities, which poses a problem for employers in second- and third-tier inland cities.

Source: Wu Yiyao: Many top bosses mull job move, China Daily, 2011-04-20

Gap in work wages widens, says report

The gap between the capital's highest- and lowest-paid workers widened by almost 13,000 yuan in just three years, according to new statistics. A survey of employees across 17 industries by researchers at the Beijing Academy of Social Sciences found the income divide stretched from 26,818 yuan in 2006 to 39,087 yuan in 2009. The figures, published last Friday in the 2011 Society Blue Book, show that roughly 70 percent of workers made no more than 30,000 yuan in 2009, with almost 3 percent making less than 12,000 yuan. By contrast, the latest Hurun Report in April estimated that Beijing is home to 170,000 multimillionaires and 10,000 billionaires, the highest concentration in the country.

The biggest earners were in financial insurance, states the report, with the lowest in industrial and wholesale retail and catering. The lowest of the low were security guards. The blue book shows the average yearly income was 26,800 yuan in 2009, equivalent to 2,233 yuan a month. The figures do not include bonuses, overtime payments or social security contributions, unlike those released by the Beijing Bureau of Statistics last July that set the average wage at 48,444 yuan. As most will expect, housing costs were the biggest drain on workers' incomes, with 34.9 percent spending up to 40 percent of their annual salaries on rent or mortgages. Authors of the blue book also compared Beijing's housing space per capita with New York, London and Tokyo and found that, while the average in the three foreign cities is 57.33 square meters, the Chinese capital's is only 28.81 square meters.

Government acts to relieve pressure on farmers

The Ministry of Commerce has stepped up its efforts to prevent a slump in vegetable prices from hurting farmers. On Wednesday, the ministry arranged for 12 major supermarkets in Beijing, including Wumart Holdings Inc, and international retailers such as Wal-Mart Stores Inc and Carrefour SA, to sign a proposal to help boost vegetable sales. It's the latest move aimed at tackling the falling price of vegetables, after the ministry issued two measures within recent weeks.

"Commercial departments at all-level governments nationwide are urged to improve transportation links between farmers and supermarkets," said Wang Bingnan, director of the department of market operation regulation with the ministry. According to the proposal, supermarkets will set up temporary vegetable stalls to promote sales by speeding up delivery times to supermarkets and reducing transportation costs.

Government concern over the price slump was heightened when Han Jin, a 39-year-old farmer in Jinan, the capital of Shandong province, committed suicide when faced by heavy losses. Experts and analysts said the price slump has been mainly caused by increases in production, over-concentration on some vegetables, and unseasonably warm weather.

Source: Zhou Siyu: Government acts to relieve pressure on farmers, China Daily, 2011-04-28

China to form 100m-ton-level iron ore miners

China will forge two or three iron ore mining groups – each with output capacity of 100 million tons – and six big groups with 30 million tons of capacity, News.cn reported Sunday. The country will also build numerous iron ore enterprises with capacities in the tens of millions of tons, according to the report, citing secretary-general of Metallurgical Mines' Association of China Lei Xiping. China has indentified iron ore reserves of 71.4 billion tons through the end of 2010. And the industry will increase its exploring efforts to find 20 billion tons of new iron ore reserves in the next five years, Lei Xiping said Saturday at the Seventh Conference on Development Strategy of Iron and Steel Industry.

Overseas iron ore mines in which China has invested may produce 90 million tons in 2011, up from 60 million tons in 2010. They have a potential of 200 million tons a year, Lei said. Those overseas mines will contribute 40 percent to China's total iron ore imports and reduce the country's reliance on iron ore exporters.

Source: Hao Yan: China to form 100m-ton-level iron ore miners, China Daily, 2011-04-18

China's waste management market expands

Experts say China's waste management industry is heading toward prosperity, as relevant annual output value growth rate in the coming two to three years might hit 30 percent. "In the coming two to three years, the waste management sector will encounter a booming period as the government continues to make efforts to strengthen waste management," said Hou Yuxuan, a researcher with an affiliated Web site of the China Investment Corporation.

The State Council, China's Cabinet, recently approved proposals by 16 ministries on strengthening the work of urban domestic garbage management companies. A report from China
Solid Waste Net shows that by 2015, China’s annual urban refuse output will reach 184 million tons, of which 82 percent will go through treatment to make it less environmentally harmful.

China's waste management approach will gradually switch from putting refuse in landfills to incinerating it, in order to reduce environmental impact. By the end of 2015, incinerated waste will account for 35 percent of China's total managed waste, said Xiao. Currently, waste in China is processed via landfills, incinerators and composting facilities. Landfill currently accounts for 85 percent of refuse, while incineration accounts for 17 percent. The country's first refuse incinerating plant which is able to handle 2,000 tons of refuse each day went into service in February this year in the city of Wuxi in east China's Jiangsu province.

Waste recovery is also a focus of the proposals brought by the 16 ministries. Recycling rates in urban areas are required to hit 30 percent, and some municipalities and provincial capitals are being asked to bring that number to 50 percent. Experts say that new policies, technologies and information are the three factors that affect the development of China's recycling industry. It is estimated that China loses as much as 30 billion yuan as the result of poor waste management each year. However, if new waste management procedures and techniques are put into place, it is believed that the country can reap economic benefits of at least 250 billion yuan annually.

Source: Xinhua: China's waste management market expands, 2011-04-29

China to set up special funds for green counties

China will set up special funds to support the creation of green energy-oriented counties in an effort to promote the use of renewable energy in the country’s rural areas, the Ministry of Finance (MOF) said Thursday. The move is believed to be able to help advance clean energy development and modernization in the country's rural areas. According to a set of regulations released jointly by the MOF, the National Energy Administration and the Ministry of Agriculture, the government will give subsidies to counties that make significant efforts to develop green energy sources.

The subsidizing plan will support endeavors such as centralizing supplies of methane gas and the utilization of biomass energy. To win over the subsidies, each project should also meet four other pre-set objectives, including an increase in the production capacity of green energy equivalent to 50,000 tons of standard coal and inclusion of at least 20,000 families as beneficiaries, plus more than 80 percent of comprehensive use rate for straw resources. "Green energy" refers to energy generated in environmentally ways or derived from environmentally sources, such as biomass energy, solar power, wind energy, geothermal energy and hydropower.

Source: Xinhua: China to set up special funds for green counties, 2011-04-29

Additive blacklist is latest ingredient in food safety fight

In the wake of a series of scandals about the safety of food and drink in China, a committee under the State Council, or China's Cabinet, has published on Saturday a list of 151 ingredients and additives that have been banned during the past nine years. The blacklist publicized by the food safety committee contains 47 "inedible" materials that have been used in the production of food, 22 additives that are open to abuse and 82 substances that are not allowed in animal feed or water.
Tonyred, an industrial coloring agent, and "lean meat powder", which is also called ractopamine and that promotes fat-free meat when fed to livestock, are among the materials listed.

According to Chinese law, individuals and companies responsible for producing or selling toxic or hazardous food are liable to sanctions that include capital punishment. Also on Sunday, the Ministry of Agriculture and eight other central authorities launched a year-long campaign aimed specifically at stamping out the use of "lean meat powder". Inspection teams will visit 10 provinces and analyze every link in the chain of the pork production process.

Vice-Premier Li Keqiang, who is also head of the State Council's food safety committee, earlier this week promised "a firm attitude, iron hand and more effort" in dealing with the problem. The efforts follow a series of food safety scandals that included the discovery of steamed buns that had been dyed with unidentified chemicals, the use of "lean meat powder" to create muscle-bound pigs and the use of illegal cooking oil, known as "gutter oil", which is produced from waste materials from commercial kitchens.

Source: Xinhua: Additive blacklist is latest ingredient in food safety fight, 2011-04-25

Profits 'blind' eyes of food inspectors

The profit-driven mentality of some supervisory organs is being blamed for the growing number of food-safety scandals across the country, Xinhua News Agency reported on Tuesday. An unidentified whistleblower from a quality and technical supervision bureau in Shandong province said supervisory bureaus earn profits from fines and charges on illegal business behaviors, Xinhua reported, so they are loath to close companies down. The whistleblower described the role of supervisors as "turning a blind eye to local companies' illegal operations and receiving kickbacks from punishments", the report said.

Therefore, the fines have actually become a kind of protection fee which give manufacturers a green light to make profits from selling poor quality or even poisonous products. Earlier media reports said that making fake wine had become a booming industry in Changli county, North China's Hebei province, where numerous wineries, additive suppliers and brand label manufacturers worked together for years to make counterfeit wines. The local government decided to shut down about 30 wineries last December only after footage on China Central Television showed a sales manager in a local winery revealing that some of the county's wine was made from water and chemicals, such as color additives and citric acid.

Food safety problems have not only hurt the public's health but also destroyed consumer confidence toward the country's food products. "The vegetables we eat are tainted by pesticide, the pork is from pigs fed with lean meat powder and even the toilet paper is made from carcinogenic materials," Liao said in a sad tone. "Sometimes, I have to buy expensive imported products and hope they are relatively safer," Liao added.

Apart from government and public supervision, Wang also urged the establishment of a mechanism to encourage whistleblowers. "We should protect those employees who feel obliged to expose the dirty business their companies are doing that harms the public's interests," Wang said.

Source: He Dan: Profits 'blind' eyes of food inspectors, China Daily, 2011-04-20
China mulls new health food regulation

A new health food regulation, designed to strengthen supervision and control of industry irregularities, is expected to go into effect before the end of this year, said an official with China's top food and drug safety watchdog on Tuesday. The new regulation, drafted by the same group, has been examined by the Legislative Affairs Office of the State Council, China's cabinet, and is in the legislative pipeline.

Liu Pei, director of the policies and laws department of the State Food and Drug Administration (SFDA) said the regulation concerns the "examination, approval, production and market supervision of health food" and will help authorities deal with problems such as use of illegal additives, incorrect media reports and exaggerated promotion.

Liu said government departments, including those related to agriculture, food quality inspection, industry and commerce, health and food and drug safety should join hands to ensure food safety "from the farmland to the dining table." He said the public should buy health food labeled with state-sanctioned markings. To ensure safe use of drinks, food and medicine, the SFDA will also be promulgating new regulations concerning recalls of medical facility and adverse drug reaction (ADR) prevention in the near future, Liu said.

Source: Xinhua: China mulls new health food regulation, 2011-04-26

Zhejiang looks to islands to boost its economic growth

When Zhejiang, the county's entrepreneurial powerhouse, announced it was boosting its marine economy this year, it stirred up enthusiasm for developing the province's thousands of uninhabited islands. The State Council, the country's cabinet, in early March approved Zhejiang's plan to build a marine economic development zone in the province and urged the province to make the offshore economy an important element of the country's eastern coastal region.

The move is seen as critical for the coastal manufacturing province and its cities, which are struggling in the face of shrinking foreign demand for their products. Now, the province's abundant offshore resources have become a potential strong growth engine for the region. Zhejiang is one of the country's smallest provinces. It covers an area of 101,800 square kilometers. However, the area of sea within its jurisdiction is 260,000 sq km, according to the local government. The province's 12th Five-Year Plan (2011-2015) showed that Zhejiang aims to reach more than 720 billion yuan ($116 billion) in gross ocean product (GOP) by the end of 2015 to make up 15 percent of the country's total by then. The province's gross ocean product reached 300.2 billion yuan in 2009 to account for 10 percent of the country's total.

In accordance with its offshore economic development scheme, the eastern province has also decided to lift the ban on exploring the several thousands of uninhabited islands for commercial use. Zhejiang has 3,061 islands of more than 500 square meters in size, with the majority being inhabited.

Source: Zhou Yan: Zhejiang looks to islands to boost its economic growth, China Daily, 2011-04-25

China: China Becomes The World's Leading Manufacturer
Ending the more-than100-year reign of the United States as the world's top producer, China became the world's largest manufacturer by output in 2010. US-based consulting firm IHS Global Insight estimates that China produced goods worth $1.995 trillion, representing 19.8% of global production. The US produced slightly less, with $1.952 trillion worth of goods and 19.4% of the total production. Overall, IHS Insight estimates that world production increased by 9.7% in 2010.

China continues to experience friction with major trade partners, however, despite posting a $7.3 billion trade deficit in February. According to the customs office, the value of imports climbed 36% year-on-year, while the value of exports rose only 21.3%. The deficit, China's highest in seven years, has done little to reduce tension with the United States, where lawmakers in February reintroduced legislation to tax Chinese imports unless the renminbi appreciates in value. Last year, the US trade deficit with China rose to a record high $273 billion.

At the country's annual National People's Congress, premier Wen Jiabao outlined China's goals for the coming five years. In his report, Wen lowered the annual GDP growth target to 7% and called for "significant improvement in the quality and performance of economic growth." Several of the policies introduced a focus on boosting living standards and strengthening social welfare services. Wen's plan calls for more investments in education, healthcare and low-income housing. The plan also promotes clean-energy production.


**China will keep opening up service sector**

Two top Chinese economic officials said on Friday that the nation is committed to further opening up the service sector, sending a strong signal that business opportunities will abound in the coming years. China is determined to continue opening up because competition is the best force to push reform forward and improve people's livelihoods, Commerce Minister Chen Deming said at the Boao Forum for Asia. "China has plans to further loosen the restrictions on the service sector," Chen said, adding that developed countries also need to provide equal market access. A host of Chinese companies have invested in foreign markets and are running into various barriers there. In 2010, China's overseas direct investment was $59 billion, equal to only 60 percent of the foreign direct investment in China, according to official statistics.

Also on Friday, Zhang Ping, head of the National Development and Reform Commission, China's top economic planner, said that over the next five years the nation will guide foreign companies toward investing more in sectors including agriculture, high-end manufacturing and services. In addition, it will create more innovative ways of using foreign investment and further improve the investment environment, Zhang said. Huo Jianguo, director of the Chinese Academy of International Trade and Economic Cooperation, a think tank affiliated with the Ministry of Commerce, said "Most areas of the service sector have already opened up, just in different degrees and layers," Huo said. He said the government is studying the feasibility of opening further areas, such as transportation and some other public services.

Source: Lan Lan: China will keep opening up service sector, China Daily, 2011-04-16
China unveils guidelines for online payment service

The Chinese Ministry of Commerce (MOC) on Tuesday published its long-awaited guidelines for e-commerce third-party payment service providers in a bid to regulate a rapidly developing business-to-consumer (B2C) industry that processes about six times as many transactions as world retail giant Wal-Mart Stores, Inc. The 16-page publication aims to create a "fair, honest and safe" transaction platform for the country's online retailers and shoppers, Jiang Zengwei, vice minister of commerce, told a forum on China's e-commerce industry that opened on Tuesday in Beijing. The MOC's guidelines echoed an ongoing campaign by the Chinese government to crack down on activities related to copyright infringement and the production and sale of fake and counterfeit products nationwide. The guidelines spelled out the roles and principles of online business participants, consumers and third-party payment service providers.

The guidelines ordered third-party payment service providers whose daily transactions exceed 100 million yuan ($15.3 million) to establish a backup system in multiple locations in case of a disaster. The guidelines also stipulate that an e-commerce third-party payment service provider should not sell its own business over the platform through which it serves other B2C participants. Under the guidelines, online third-party payment service providers must store their online transaction data for at least two years, and must not disclose this online transaction data to a third party except as otherwise stipulated by law.

China has the world's highest number of Internet users, with about 457 million netizens, among whom 148 million were active online shoppers as of the end of last year. China's B2C transactions topped 4 trillion yuan in 2010, compared to Wal-Mart's total revenue of $116.3 billion, according to the MOC.

Source: Xinhua: China unveils guidelines for online payment service, 2011-04-13

Beijing is '30 years behind New York'

Beijing is in the second stage of becoming a global city - yet it is still about 30 years behind the likes of New York, London and Tokyo, say experts at the Beijing Academy of Social Sciences. In its new blue book on urban and rural development, the institution makes this conclusion based on four factors: economy, culture, society and city development, with each having 24 indicators. The Chinese capital scored an average of 34.9 in the assessment, based on data from the Beijing Bureau of Statistics. However, cities like those in the United States, Britain and Japan averaged 66.

"There are huge gaps ... between Beijing and cities like New York, London and Tokyo," said Bai Zhigang, director of the academy's foreign studies institute and one of the co-authors of the report. "The city needs to improve, especially in social and economic areas. Social security standards in Beijing are low and the wealth gap is widening," he said. The gap in average salaries widened from 26,818 yuan in 2006 to 39,087 in 2009, according to the blue book.

Beijing is expected to enter the third stage of its development and become a major global city in 2050, the blue book adds. The first stage ran from the reform and opening up of 1978 to the 2008 Olympics, with the second stage predicted to last another 40 years. To be a global city, however, Bai
said the capital must improve air quality, increase the number of libraries, improving quality of life and enhancing independent innovation.
Source: Cang Wei: Beijing is '30 years behind New York', China Daily, 2011-04-26

**Northeast Asia's Economic Integration into China**

Korea and Japan are two of modern history's great economic success stories. Both rebuilt their devastated economies to join the advanced nations of the world on a steady diet of exports. For five decades, the US was the prime market for both countries; but by the 2000s a major change was underway. Today China has replaced the US as the main market and largest trading partner for both countries.

Before 2000, it is no exaggeration to say that the performance of the Korean and Japanese economies was determined largely by their performance in US-bound exports. Since then, however, China has displaced the US to absorb the largest amount of exports from both countries. Both Korea and Japan export capital goods, intermediate products, and materials to China. China then processes these items and exports the finished goods to other countries, in what is called sharing. Production sharing occurs when the breakup of a production process into vertically separated stages being carried out in two or more countries costs less than an integrated process of activities in producing a good in just one factory. Such phenomena of cross-border production sharing by fragmentation is a chief reason for the increase in trade of East Asia.

The three Northeast Asian nations have convened a tripartite summit, while attending the ASEAN+3 Summit held by ASEAN. But this summit meeting is held in the ASEAN area, not in Northeast Asia.

**BRICS urged to deepen ties**

The BRICS bloc, comprising Brazil, Russia, India, China and South Africa, should deepen cooperation and have a greater say in the reform of the international monetary and financial system to counter the instability of major currencies, officials and analysts said. "The BRICS countries have similar concerns or stances on important issues such as the global economy, international finance and development," Wu Hailong, China's assistant foreign minister, said at a news conference this month. Wu said China hopes all parties can strengthen coordination and mutual cooperation on matters including the reform of the international monetary system (IMS). Lu Zhengwei, chief economist with the Industrial Bank Co Ltd, said the large economic disparity and political distrust between BRICS members limits their ability for a coordinated approach to IMS. "Brazil and India have joined the Western camp to impose greater pressure on the yuan's exchange rate, while the broadening of SDR currencies and cutting holdings of US treasury debts is much more related to China than the other four countries because it has an unparalleled amount of foreign exchange reserves." BRICS countries face the common shock of international hot money due to their higher rate of return on investment, said Zheng Xinli, vice-president of the China Center for International Economic Exchanges (CCIEE).
"The root of the financial crisis was that major developed economies abused their national credit and over-issued their currencies, which led to a spate of financial products. So, as victims of this crisis, the five countries should strengthen their cooperation in promoting the system's reform and, especially, to increase their say in the issuance behavior of major reserve currencies," he said.

Source: Wang Xiaotian: BRICS urged to deepen ties, China Daily, 2011-04-14

A Cross-Cultural Comparison by Individualism/Collectivism among Brazil, Russia, India and China

By 2039, the economics of BRIC (Brazil, Russia, India and China) will overtake and be wealthier than most of the current major economic countries, such as the G6 (Goldman Sachs, 2003), and the combined economics of the BRIC will eclipse the current richest countries and play a major economic role in the world (Braun, 2009; MacDonald, 2009). Goldman Sachs (2003) predicts that China and India will be the dominant global suppliers of manufactured goods and services while Brazil and Russia will also become similarly dominant as suppliers of raw materials respectively, and cooperation is hypothesized to be a logical next step among the BRIC because Brazil and Russia will become the logical commodity suppliers to India and China.

Despite the enthusiasm for increased global interaction and economic exchange, many people have found that cultural differences have hindered their ability to efficiently conduct business due to their lack of understanding of the cultural differences. This research explores the comparison of cultural orientation. The individualistic-collectivist characteristic was a dependent variable, and the four distinct geographic regions were independent variables. The objectives provide a more comprehensive understanding of the differences and similarities of culture among Brazil, Russia, India and China. The SPSS 13.0 was utilized for the data analysis of the collected surveys for measuring the research hypothesis. The findings were a statistically significant difference between the individualist/collectivist attitudes among the BRIC.

The results showed that there was a significant difference among Brazil, Russia, India and China in individualism/collectivism attitude. It indicates that India has highest individualism attitude compared to Brazil, Russia and China. China has highest collectivism attitude compared to Brazil, Russia and India. Brazil has higher individualism attitude compared to China. Those results of the study were consistent with the findings of the prior empirical study by Hofstede (1980). It also announces Russia has higher individualism attitude compared to China, and both Brazil and Russia have no significant differences in individualism/collectivism attitude.


India and China can learn from each other

China and India will continue to lead economic growth in Asia, with growth rates of 9.5 and 8 percent, respectively, this year and in 2012, Anoop Singh, head, Asia and Pacific department, International Monetary Fund has predicted. At a press briefing at the conclusion of the joint
IMF-World Bank meetings last week before the release of the IMF's comprehensive Economic Outlook for Asia report.

"There is a lot that countries can learn within Asia, too," Singh said. "If we look at what China has done over the last 10 years, you see how China has raised its infrastructure... You then look at what India has done. India has developed its service technology, information technology, in a substantial way. Developing a service economy is a very important objective of China's next plan. I think we are at a stage where both can learn from each other as they address the target of keeping their growth rates robustly high."


China to let yuan rise faster to ease prices

China is expected to let the yuan rise at a faster pace as a way to help curb inflation, the China Securities Journal said on Tuesday. Referring to remarks over the weekend by Zhou Xiaochuan, China's central bank governor, who said the yuan will be used to curb inflation, the newspaper asserted that the currency is set to pull more weight as a monetary policy tool. "These remarks show the currency tool is given a new role under the current macro-economic situation," the newspaper said. "To reach the government's inflation target, gains in the yuan can be an alternative to increases in interest rates and the reserve requirement ratio," it added. But the yuan's performance against a swathe of currencies has been mixed so far, obscuring its effectiveness as an anti-inflation tool.

Source: Xinhua: China to let yuan rise faster to ease prices, 2011-04-19

World economy: China in the firing line over global imbalances

The responsibility for global economic imbalances extends across a wide plain. The US, the world's largest debtor, certainly bears a significant share of the blame: the US fiscal deficit will be a staggering 10% of GDP this year. But after years of ignoring the problem, Washington is now awash in proposals to rein in spending. Divided government in the US ensures this process will be neither swift nor well-designed, but progress will be made.

Imbalances do, however, run both ways. On the other side of the US deficits are the creditor countries that are exporting capital and running surpluses, in part because their citizens consume too little. The three leading creditor countries--China, Japan and Germany--are each in a unique position as the recovery gains traction.

Forget Japan: Economists have long argued that creditor countries need to boost consumer demand, but the tools to do so either are not being used or are not effective. Interest rates are already extremely low in Japan, and years of deflationary pressure have undermined consumers' incentive to spend. Allowing Japan's exchange rate to strengthen, which would make imports less expensive in local-currency terms, could in theory help domestic demand, but the yen is already trading at very high levels. Indeed, after Japan's recent natural disaster and a surge in the value of the yen--on speculation that companies would repatriate overseas funds--governments mobilised to push the yen down and help Japan's export competitiveness. Under the circumstances, then, there is little scope to
recommend further appreciation for the yen. Japan, for now, seems off the table in the global rebalancing game.

Germany, the other big creditor among rich countries, is very much in the game. An export boom has led to accusations that the country is not doing its share to reduce global imbalances. Despite a strong domestic recovery in 2010, in which real GDP rose by 3.5%, German consumer spending increased by just 0.4% in real terms. That said, the euro has recently appreciated sharply against the US dollar, which will curb German export growth and thus redress a share of the global imbalances. German consumers are also finally showing some lukewarm appetite for spending. The European Central Bank has started to raise its benchmark interest rate, which will further strengthen the euro while increasing Germans’ purchasing power of imports. All of this will insulate Germany to a degree from pressure for fundamental rebalancing.

China syndrome: That leaves China, whose policy direction has been heatedly debated, and for a number of reasons. China is, after all, the second-largest economy in the world (behind the US) and generally posts large external surpluses (the current-account surplus was equal to nearly 10% of GDP in 2008 and above 5% in each of the last two years). Surging demand for imported commodities has reduced these imbalances to a degree—in the first quarter of 2011 China recorded a rare and temporary trade deficit—but the country’s bilateral surplus with the US, its biggest critic, remains huge.

The most immediate tool for redressing China’s imbalances is the exchange rate, but the currency remains tightly managed by the authorities, and the pace of appreciation has been painfully slow. The renminbi, which was re-pegged to the dollar at Rmb6.83:US$1 in 2008, was de-coupled last year, but has appreciated to only around Rmb6.53:US$1. China is reluctant to revalue the renminbi because that would reduce export growth. The government recognises the potential benefits of rebalancing the economy towards domestic demand—all else being equal, letting the currency appreciate would encourage consumption by making imports cheaper. Balanced against this, however, is the risk that a stronger currency would lead to job losses in the export sector, indirectly undermining domestic demand. The government appears unwilling to let this happen.

Yet the government has another reason to consider faster currency appreciation: by reducing the costs of imports, it would help efforts to restrain inflation, which policymakers have called their number one priority. The People's Bank of China (the central bank) raised its main policy rate on April 5th for the fourth time since last October, suggesting the government remains vigilant about inflation, which almost certainly will rise further in coming months. Higher borrowing costs may also help to cool China's property market, since there is little evidence that the central government has been able to cajole local authorities into curbing property investment.

In any event, China increasingly is being viewed as the only large creditor country that has not done enough to encourage exchange-rate realignment or promote domestic demand. It is not just the US and Europe that are complaining about China's exchange-rate policy. Emerging markets, including Brazil, have joined the chorus. Even some Asian economies with less severe inflation problems than China continue to tighten their monetary policies by raising interest rates (Thailand and Taiwan) and allowing their currencies to appreciate (South Korea and Singapore).
What, then, are China's options? The government could step up the pace of renminbi appreciation, perhaps to 4-5% against the dollar in the first half of 2011, while trying to soften the impact on exporters through a variety of administrative measures. This would have public relations benefits internationally. Second, China could slash import taxes and duties on many goods (eg, meat, cars, luxury products), which would ease the pressure on China's trade surplus. For example, import duties on vehicles are as high as 25%, and the US has been pressuring China for some time to slash import tariffs on auto parts. Although a reduction in tariffs would also intensify the competitive pressures facing exporters, the authorities would have more scope to be selective about the products and sectors for which tariffs were cut.

Source: EIU ViewsWire: World economy: China in the firing line over global imbalances, Apr 14, 2011

Brazil/China economy: Rebalancing the relationship

Sino-Brazilian commercial ties have expanded rapidly in the last decade, and China is now Brazil's top trading partner--and was its biggest foreign direct investor in 2010 (with FDI worth around US$15bn). However, the relationship is seen as unbalanced, with Brazil exporting mostly commodities and importing manufactured goods from the Asian giant. President Dilma Rousseff took a step towards correcting this imbalance during a five-day visit to China that began on April 11th. She signed 22 co-operation agreements, some designed to open China's market to higher-value-added goods.

The Rousseff administration wants to diversify Brazil's exports and convince China to lower its substantial formal and informal barriers to the import of manufactured and processed goods. For example, China buys huge quantities of soybeans from Brazil, but does not import much processed soy products. Of Brazil's US$56bn in sales to China last year, around 75% was commodities, with iron ore being the top export item. Similarly, some 90% of Chinese FDI in Brazil is in natural-resources sectors.

The president got some of what she wanted. The accords cover areas ranging from defence co-operation to joint development of agricultural technology and biofuels, as well as sports and education initiatives. The two sides also agreed to do research and development in the areas of nanotechnology, electricity and oil. Brazil's state-controlled oil company Petrobras, for instance, will work with China's Sinochem and Sinopec to develop new technologies for geological and deep-water prospecting.

China also said it would lift barriers to the import of pork products and agreed to purchase 25 additional regional jets for its state companies (Beijing had already agreed to buy 10) from Embraer, the Brazilian aircraft manufacturer. These orders are worth US$1.2bn. As a follow-up, the Chinese will send a commercial mission to Brazil in May to identify other potential suppliers of manufactured goods. In the high-tech area, a major announcement came from the chief of Taiwan-based Foxconn, who said the company was considering an investment of US$12bn over five years in Brazil to manufacture Apple products, including the popular iPad tablet computer.

Source: EIU ViewsWire: Brazil/China economy: Rebalancing the relationship, Apr 13, 2011
PBOC governor says foreign reserves excessive

China's huge stockpile of foreign exchange reserves, the world's largest, have become excessive and the government must diversify investments using the reserves, Zhou Xiaochuan, governor of the People's Bank of China, said in comments published on Tuesday. The country's foreign exchange reserves swelled by nearly $200 billion in the first quarter of this year to more than $3 trillion, indicating hefty capital inflows, and the government has so far focused on investing mainly in US dollar assets, including US Treasuries. "Foreign exchange reserves have exceeded our country's rational demand, and too much accumulation has caused excessive liquidity in our markets, adding to the pressure of the central bank's sterilization," Zhou was quoted by the official Shanghai Securities News as saying. "The State Council has required a cut in excessive accumulation and good management of the funds accumulated, including diversification of investments," Zhou was quoted as telling a forum at Tsinghua University in Beijing.

Source: Xinhua: PBOC governor says foreign reserves excessive, 2011-04-19

Canton Fair transactions over $23b

The 109th Canton Fair, the largest trade fair in China, ended its first session this year with transactions reaching $23 billion in value, which is 1.85 billion dollars more compared with the first autumn session last year. The 109th Canton Fair opened its first session for the year in the southern city of Guangzhou last Friday. The second session will open on Saturday.

Source: Xinhua: Canton Fair transactions over $23b, 2011-04-22

Japan becomes Beijing's top export market

Japan became Beijing's largest export market, passing the US in the first quarter of 2011, said the head of the Beijing Municipal Commission of Commerce on Monday. In the first quarter of 2011, total export-import volume between Beijing and Japan reached $5.19 billion, with exports accounting for $1.06 billion, according to the commission. Major exports from Beijing to Japan include mobile phones, coal, PC software and computer processors. The biggest imports from Japan to Beijing are cars, flat-panel LCD displays, digital cameras and integrated circuits (ICs).

Japan's recent earthquake and tsunami do not appear to have significantly affected imports from Japan to Beijing, according to an analysis by the commission. It is estimated that exports from Beijing to Japan will continue to increase, according to the analysis.

Source: Xinhua: Japan becomes Beijing's top export market, 2011-04-26

'World News: Study Shows Trade's Shrinking Role in China's Growth

China no longer depends much on its trade surplus for growth, a World Bank study finds, marking a sharp shift in its development model. While China's trade surpluses are expected to average around $200 billion in 2011 and 2012, the World Bank said, that is 2.7% of projected gross domestic product, or just 0.2 percentage point of its expected growth. Part of the reason is meager demand in the rest of the world, said Louis Kuijs, a World Bank senior economist in Beijing. But he
also pointed to "a structural process going on, coming from a strongly growing Chinese economy" that sucks in imports.

The World Bank study could make it more difficult for the U.S., which has pointed to China's trade surpluses as evidence its currency is undervalued, to argue for further Chinese action to increase the yuan's value, especially coming on the heels of a quarter in which China ran a small trade deficit. That is a big decline from last year when the trade surplus accounted for 0.8 percentage point of China's 10.3% GDP growth. During the middle of the past decade, the trade surplus often accounted for about 2.4 percentage points of China's annual growth.


Yuan Role In Trade Is Growing Quickly

The volume was up from 309.3 billion yuan in the fourth quarter of 2010, or 5.7% of foreign trade, and was nearly 20 times the 18.4 billion yuan in such deals in the first quarter of 2010, according to earlier data from the People's Bank of China. About 7% of China's foreign trade in the first quarter was done in transactions denominated in yuan, up from 0.5% a year earlier, illustrating the Chinese currency's rapidly growing -- though still small -- international role.

In 2009, the government began allowing exporters and importers in certain regions to use yuan to buy or sell goods abroad with specified trading patterns. The trials started slowly -- yuan deals accounted for just 0.1% of trade in the 2009 fourth quarter -- but have expanded rapidly. The process has been helped by the government's move last June to let the yuan start appreciating against the dollar, albeit gradually. Perceptions that the yuan is undervalued and is therefore likely to appreciate have made trading companies outside China more willing to take the currency as payment.

Indeed, most of the yuan-based trade deals so far have involved Chinese companies using the Chinese currency to buy goods from others. The Chinese Academy of Social Sciences, a state-run think tank, said in a study issued Monday that about 80% of yuan trade in the first three quarters of 2010 was accounted for by China's imports. Mark Williams, an economist at research firm Capital Economics, said there is likely a limit to how much foreigners will be willing to accept in yuan payments, because there are still strict curbs on their ability to invest those assets, the result of the still-extensive capital controls that help Beijing manage the yuan's exchange rate. "There's a contradiction between these aims to internationalize the currency on the one hand and to maintain your hold on the value of the currency on the other," he said.


China economy: Recent JVs, contracts, MoUs and other agreements

Recent joint ventures, contracts, MoUs and other agreements

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Supply contract signed (Mar 7th)  Air China (a Hong Kong-listed company based in Beijing); Boeing Co of the US  Boeing wins an order from Air China to supply five Boeing 747-8 airplanes, which will be delivered between 2014 and 2015.

Construction

Building contract signed (Mar 1st)  China Triumph International Engineering Co (CTIEC); Norm of Azerbaijan  CTIEC, a subsidiary of state-owned China National Building Materials Group Corp, wins a contract from Norm (a privately-owned cement distributor) to build the first phase of a cement plant in Baku, capital of Azerbaijan. The plant, which will have a production capacity of 2m tonnes of cement/year, is expected to start operations at the end of 2013.

Energy & power

Contract signed (Mar 15th)  Sinohydro Corp of China; Iran Water & Power Resources Development Co  State-owned Sinohydro wins a contract to build a 315-metre-high dam and a 1,500-mw power plant in south-west Iran. The project is to be completed within ten years.

Supply contract announced (Feb 28th)  China Technology Development Group Corp (CTDC, a NASDAQ-listed company); ConSae of Italy  CTDC, a subsidiary of state-owned China Merchants Group, agrees to supply 20 mw of crystalline solar modules to ConSae (a photovoltaic system integrator) in 2011.

Finance

Agreement signed (Mar 14th)  Ping An Insurance (a Hong Kong-listed company); Jinjun Co (wholly owned by Cheng Yutung, chairman of Hong Kong's New World Development Co)  Jinjun agrees to acquire 3.44% of the enlarged capital of Ping An, which is proposing a placement of new H shares. The deal is subject to regulatory approval.

Food & beverages

Acquisition announced (Apr)  Kingway Brewery Holdings (a Hong Kong-listed company)  GDH agrees to acquire HABPC’s entire 21.37% stake in
Kong-listed company based in Shenzhen; GDH Ltd (wholly owned by Guangdong Holdings); Heineken-APB (China) (HAPBC, jointly owned by Heineken of the Netherlands and Fraser and Neave of Singapore) Kingway, raising its stake to 73.82% (from 52.45%).

Healthcare & pharmaceuticals

| Acquisition approved (Mar 16th) | Novartis of Switzerland; Zhejiang Tianyuan Bio-Pharmaceutical Co | Approx Rmb850m (US$130m) | Novartis wins regulatory approval to acquire 85% of Tianyuan, a Hangzhou-based vaccine maker. |

Petroleum & petrochemicals

| MoU signed (Mar 17th) | PetroChina; Saudi Arabian Oil Co (Saudi Aramco) | -- | PetroChina and state-owned Saudi Aramco agree to build a refinery, with oil-processing capacity of 200,000 barrels/day, in Yunnan. Saudi Aramco will supply the refinery with crude oil through a long-term contract, while PetroChina will market the refined products. |

Telecoms & technology

| JV announced (Mar 10th) | Opera Software of Norway; Telling Telecom Development Co of China | Rmb135m (US$20.7m) | Opera (a maker of mobile web browsers) and Telling Telecom (a Shenzhen-based mobile phone distributor) agree to set up a 33:67 JV for developing a customised mobile browser for the Chinese market. Sony (China) agrees to fully acquire Suzhou Epson, a small and medium-sized TFT-LCD panel manufacturer, from Seiko Epson. The transaction is subject to regulatory approval. |
| Acquisition announced (Mar 9th) | Sony (China) (wholly owned by Sony Corp) and Suzhou Epson (wholly owned by Seiko Epson), both of Japan | Rmb775m (US$118.7m) | |

Source: EIU ViewsWire: China economy: Recent JVs, contracts, MoUs and other agreements, Apr 25, 2011

**China Firm To Bid for Copper Company**
China's Minmetals Resources Ltd. said Monday it intends to make a $6.3 billion Canadian (US$6.5 billion) offer for copper miner Equinox Minerals Ltd., whose assets are mainly in Zambia, in the most recent move by China to secure critical raw materials to feed its rapidly growing economy and cut its dependence on foreign miners.

Minmetals, which already owns 4.2% of Equinox, said the C$7-a-share cash offer is conditional on the termination of a hostile bid by Equinox for Lundin Mining Corp., whose main assets are in the Democratic Republic of Congo and Europe. Minmetals said its Equinox offer has support from its state-owned parent, China Minmetals Corp., and requires approval from China's economic planning agency.


Growing ODI boosts regional cooperation

China's growing overseas investments to other emerging markets will further boost regional cooperation, which may help stimulate the world's economic recovery, economists said on Monday. The nation has increased it overseas direct investment (ODI) to other emerging economies in recent years. In 2010, its ODI to Brazil saw a 50-fold jump from 2009 to $17 billion, accounting for one-third of Brazil's investment inflows, according to the Chinese Ministry of Commerce. Its ODI to Russia also surged by 59 percent year-on-year to $260 million during the first six months of 2010, the ministry said. Sang Baichuan, director of the Institute of International Economy at University of International Business and Economics in Beijing said China's investments will help further the economic development of the BRICS countries - Brazil, Russia, India, China and South Africa. "China's investments have helped create more jobs, improve infrastructure and increase people's incomes in the local markets," he said.

Meanwhile, China's investments have expanded to new sectors besides the traditional mining, manufacturing and labor-intensive industries. In Russia, cooperation between the two countries has expanded to include sectors such as transportation, telecommunication, and technological research and development. In India, bilateral investments tap into sectors including pharmaceutical, software and new materials. Yang Lihua, director of the Center of Southern African Studies at the Chinese Academy of Social Sciences, said that China's investments in South Africa have increased the country's industrialization. "Besides more jobs and better infrastructure, Chinese companies brought in their experience and advanced technologies in manufacturing and processing industries," she said.

China's ODI surged by 13.1 percent year-on-year to $5.27 billion during the first two months this year. Authorities are confident that it will continue to grow in the long term because of "the growing competitiveness of Chinese companies", Yao Jian, a spokesman for the Ministry of Commerce, said on Tuesday.

Source: Zhou Siyu: Growing ODI boosts regional cooperation, China Daily, 2011-04-14